

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 VALLETTA 0378

E.O. 11652: GDS

TAGS: PINT, PFOR, MT

SUBJECT: MALTA: QUARTERLY POLITICAL/ECONOMIC REPORT

REF: VALLETTA 0025

1. SUMMARY

DURING THE FIRST QUARTER THE ANNUAL BUDGET WAS PRESENTED TO PARLIAMENT BY THE GOVERNMENT. IT WAS DUBBED A "BONANZA" FOR THE AVERAGE MALTESE BY LABOR SUPPORTERS, BUT VIEWED WITH CONSIDERABLE ALARM BY THE BUSINESS COMMUNITY. FIREWORKS RESULTED FROM PRIME MINISTER MINTOFF'S VITRIOLIC TIRADES AND TAKE OVER ACTIONS AFFECTING SEVERAL "FOREIGN" (I.E. BRITISH) FIRMS: CABLE AND WIRELESS, REDIFFUSION AND BARCLAYS. MINTOFF MADE
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ANOTHER HIGHLY-PUBLICIZED TRIP TO CHINA AND NORTH

KOREA, BUT CAME AWAY LARGELY EMPTY-HANDED THIS TIME IN HIS CONTINUING QUEST FOR ASSISTANCE FOR MALTA. BILATERAL US-MALTESE RELATIONS REMAINED HARMONIOUS DURING THE QUARTER.

END SUMMARY

2. POLITICAL DEVELOPMENTS

THE MAJOR POLITICAL EVENT OF THE QUARTER WAS THE PRESENTATION OF THE 1975/76 BUDGET TO PARLIAMENT ON MARCH 6. CLEARLY REFLECTING MINTOFF'S CONTINUED SUPPORT OF INCREASED SOCIAL BENEFITS FOR THE AVERAGE MALTESE AND ENCOURAGEMENT OF PARA-STATAL INDUSTRIAL ACTIVITIES IN COMPETITION WITH THE PRIVATE SECTOR, THE BUDGET WAS HAILED AS A "BONANZA" FOR MALTA BY MINTOFF'S LABOR SUPPORTERS. THE LARGEST BUDGET IN MALTA'S HISTORY (OVER LM 80 MILLION IN EXPENDITURES), IT RELIES TO A CONSIDERABLE EXTENT FOR BALANCE ON A CARRY-OVER SURPLUS, LOANS AND GRANTS FROM FOREIGN GOVERNMENTS, AND THE NATO RENTAL PAYMENTS.

THE NEW PERSONAL BENEFITS CONTAINED IN THE BUDGET INCLUDE AN INCREASED MINIMUM WAGE, A MANDATORY CHRISTMAS BONUS, AND HIGHER SOCIAL SECURITY PAYMENTS. THESE MEASURES WILL BE A HEAVY BURDEN FOR MALTESE BUSINESS, ALREADY FEELING THE EFFECTS OF THE INTERNATIONAL RECESSION.

THE MAIN CRITICISM OF THE BUDGET FROM THE NATIONALIST OPPOSITION AND THE PRIVATE SECTOR IS THAT, RATHER THAN OFFERING NEEDED INCENTIVES TO ENCOURAGE BUSINESS ACTIVITY IN THE FACE OF RECESSION, MINTOFF IS INSTEAD TAKING FURTHER STEPS TO UNDERMINE PRIVATE ENTERPRISE.

ALTHOUGH THE LABOR GOVERNMENT PASSED ITS BUDGET THROUGH PARLIAMENT WITH HARDLY AN ACKNOWLEDGEMENT OF NATIONALIST CRITICISM, CONSERVATIVE, ANTI-MINTOFFIAN CIRCLES ARE QUITE CONCERNED ABOUT FURTHER EXPANSION OF HIS SOCIALIST PROGRAMS WHEN MALTA'S VULNERABLE, EXPORT-DEPENDENT ECONOMY IS UNDER SEVERE STRAINS FROM EXTERNAL ECONOMIC FORCES.

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IN A RELATED DEVELOPMENT, MINTOFF ONCE AGAIN REFUSED TO DISCUSS IN PARLIAMENT THE QUESTION OF DOMESTIC PETROLEUM PRICES, A CONTROVERSIAL ISSUE IN MALTA. MINTOFF ADMITTED THAT THE GOM IS MAKING A PROFIT ON GASOLINE SALES, BUT COUNTERED THAT THIS IS BEING DONE TO SUBSIDIZE THE COST OF ELECTRICITY AND KEROSENE AND THUS KEEP THE COST OF LIVING DOWN. MINTOFF DID TELL PARLIAMENT, HOWEVER, THAT CONTRARY TO POPULAR BELIEF, MALTA WAS NOT PURCHASING ITS

CRUDE OIL FROM LIBYA. HE SAID THE GOM WAS BUYING OIL FROM ANY AND ALL SOURCES AT THE BEST AVAILABLE PRICE. ANOTHER ISSUE INVOLVING LIBYA SURFACED DURING THE QUARTER. WITH ALL OF THE MALTESE ARMED FORCES' HELICOPTERS GROUNDED DUE TO MAINTENANCE PROBLEMS, MINTOFF TURNED TO QADHAFI FOR THE "TEMPORARY LOAN" OF LIBYAN MILITARY HELOS TO PROVIDE SURVEILLANCE PATROLS OF MALTESE WATERS AND HARBORS. MINTOFF TOOK THIS ACTION WITHOUT PRIOR CONSULTATION WITH THE BRITISH, DESPITE THE PROVISIONS OF THE UK/GOM BASE RENTAL AGREEMENT. THE STATUS OF THE LIBYAN HELOS REMAINED UNRESOLVED AS THE QUARTER ENDED.

3. ECONOMIC DEVELOPMENTS

DURING THE FIRST QUARTER OF 1975, PRIME MINISTER MINTOFF WAS BUSY CEMENTING HIS CONTROL OVER VARIOUS SERVICES PREVIOUSLY PROVIDED BY BRITISH COMPANIES. EFFECTIVE JANUARY 1, "TELE-MALTA" WAS ESTABLISHED TO ASSUME RESPONSIBILITY FOR THE OPERATION OF ALL TELEPHONE, TELEGRAPH AND TELEX FACILITIES FORMERLY OPERATED BY CABLE AND WIRELESS.

IN LATE MARCH, MINTOFF ANNOUNCED THE PLANNED TAKEOVER BY THE GOM OF THE MALTESE BRANCH OF BARCLAYS BANK. EFFECTIVE OCTOBER 1, A NEW "MID-MED" BANK WILL BE ESTABLISHED ON A PARTNERSHIP BASIS, WITH SIXTY PER CENT OWNERSHIP BY THE GOM AND FORTY PER CENT BY BARCLAYS. WITH THIS TAKEOVER, THE GOM WILL ACQUIRE A VIRTUAL MONOPOLY OVER COMMERCIAL BANKING IN MALTA.

HOWEVER, A MAJOR CONTROVERSY RESULTED FROM MINTOFF'S MOVES AGAINST THE RADIO-TELEVISION SERVICES OF REDIFFUSION. AFTER STATING ON MANY OCCASIONS THAT HE WOULD END CONFIDENTIAL

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REDIFFUSION'S CONTROL OF TELEVISION AND WIRED-RADIO BROADCASTING IN MALTA, MINTOFF INSTIGATED A SIT-IN BY UNIONIZED EMPLOYEES AT THE COMPANY'S OFFICES IN MID-FEBRUARY, OSTENSIBLY BECAUSE THE COMPANY HAD REFUSED TO ACCEPT MINTOFF'S OFFER TO BUY IT OUT AT BARGAIN-BASEMENT PRICES.

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MINTOFF THEREUPON RAMMED THROUGH PARLIAMENT AN EMERGENCY COUNCIL ACT GIVING HIMSELF ABSOLUTE CONTROL OVER ALL OF REDIFFUSION'S FACILITIES AND SERVICES, AND THE RIGHT TO HIRE AND FIRE ITS EMPLOYEES WITHOUT RECOURSE TO UNION AGREEMENTS OR COURT PROCEDURES.

THE BRITISH GOVERNMENT MADE EXTREMELY STRONG REPRESENTATIONS TO MINTOFF OVER THE HIGHHANDED MANNER IN WHICH REDIFFUSION'S CONTRACTUAL RIGHTS HAD THUS BEEN OVERRIDDEN. AS A RESULT, MINTOFF BACKED DOWN AND SENT A SPECIAL DELEGATION TO LONDON TO SEEK A NEGOTIATED SETTLEMENT, WHICH WAS ACCOMPLISHED, AND LARGELY ON REDIFFUSION'S TERMS. ON MARCH 24 MINTOFF ANNOUNCED IN PARLIAMENT THAT AN ACCEPTABLE AGREEMENT HAD BEEN REACHED WITH REDIFFUSION. HE REFUSED TO DIVULGE ANY OF THE DETAILS AND, NATURALLY, REPORTED THE OUTCOME AS ANOTHER MINTOFFIAN VICTORY IN HIS CAMPAIGN
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TO REDUCE BRITISH INFLUENCE IN MALTA.

THE MOST SIGNIFICANT RESULT OF MINTOFF'S HEAVY-HANDED

SKIRMISHES AGAINST BRITISH FIRMS HAS BEEN A SERIOUS UNDERMINING OF THE CLIMATE FOR FOREIGN INVESTMENT AT A TIME WHEN MALTA BADLY NEEDS ADDITIONAL INDUSTRIAL INVESTMENT. THE ALREADY NERVOUS MALTESE BUSINESS COMMUNITY HAS BEEN MADE INCREASINGLY GUN-SHY IN THE FACE OF THESE MINTOFFIAN ANTICS, SO THAT DOMESTIC INVESTMENT IS BEING NEGATIVELY AFFECTED AS WELL. THESE EVENTS OFFER LITTLE HOPE FOR A SOLUTION OF MALTA'S MOST SERIOUS POLITICAL AND ECONOMIC PROBLEM UNEMPLOYMENT.

4. FOREIGN RELATIONS

MINTOFF, A SELF-APPOINTED WORLD STATESMAN, MADE A HIGHLY PUBLICIZED TRIP TO IRAQ, CHINA AND NORTH KOREA FROM JANUARY 4 TO 13. DURING THIS SECOND OFFICIAL VISIT TO CHINA, AND HIS FIRST TRIP TO NORTH KOREA, MINTOFF WENT OUT OF HIS WAY TO CONVINCE HIS HOSTS OF THE GENUINENESS OF HIS NON-ALIGNED CREDENTIALS, AS WELL AS TO PAY EXTENSIVE LIP SERVICE TO THE ECONOMIC ACHIEVEMENTS OF CHINA AND KOREA COMPARED WITH THE RECESSION-BURDENED WEST.

ALTHOUGH WELL RECEIVED, MINTOFF CAME BACK TO MALTA WITH A MUCH EMPTIER BEGGING BOWL THAN AFTER HIS 1972 VISIT TO CHINA. SEVERAL SMALL NORTH KOREAN DELEGATIONS DID MAKE RETURN VISITS TO MALTA IN FEBRUARY TO IMPROVE MALTESE-KOREAN TRADE EXCHANGES. IT ALSO WAS ANNOUNCED THAT THE NORTH KOREANS WOULD ASSIST MALTA IN SETTING UP A FACTORY TO MANUFACTURE SMALL TOOLS, AS WELL AS PROVIDE TECHNICAL ASSISTANCE TO THE MALTESE FISHING INDUSTRY. FEW RESULTS WERE REPORTED FROM MINTOFF'S CHINA STOPOVER, AND THE GENERAL IMPRESSION WAS THAT THIS SECOND TRIP TO CHINA WAS DISAPPOINTING FOR MINTOFF. THE CHINESE PRESENCE IN MALTA CONTINUES TO INCREASE, HOWEVER, AS ADDITIONAL TECHNICIANS AND WORKERS ARRIVE TO HELP WITH VARIOUS JOINT INDUSTRIAL PROJECTS ALREADY UNDERWAY IN MALTA.

MINTOFF ALSO RECEIVED OFFICIAL DELEGATIONS DURING THE
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QUARTER FROM ALBANIA AND VIETNAM. THE ALBANIANS WERE SHEPHERDED ABOUT BY THE CHINESE EMBASSY IN MALTA, AND SIGNED A TRADE AGREEMENT DESIGNED TO EXPAND MALTA'S MINISCULE EXPORTS TO ALBANIA. THE VIETNAMESE DELEGATION, REPRESENTING THE VIET CONG (WITH WHICH MINTOFF HAS HAD "DIPLOMATIC RELATIONS" SINCE 1973), WAS GIVEN FIRST CLASS TREATMENT AND STAYED AT THE PRESIDENT'S PALACE WHILE IN MALTA. THERE WAS NO OFFICIAL COMMENT AS TO THE PURPOSE OF THE VIET CONG'S VISIT TO MALTA.

THE GOM ANNOUNCED DURING THE QUARTER THAT IT HAD ESTABLISHED
DIPLOMATIC RELATIONS WITH ALGERIA.

5. BILATERAL RELATIONS

DURING THIS QUARTER, THE DEPARTMENT PROPOSED BILATERAL
CONSULTATIONS WITH THE GOM TO REVISE THE US/MALTA TEXTILE
AGREEMENT. THESE DISCUSSIONS ARE SCHEDULED TO BE HELD
IN VALLETTA ON APRIL 8.

THE EMBASSY HAS RECOMMENDED AN EARLY RESUMPTION OF THE
DOUBLE TAXATION TREATY NEGOTIATIONS BEGUN WITH THE GOM
IN JULY 1974. THE US PRIVATE BUSINESS COMMUNITY IN
MALTA HAS EXPRESSED INTEREST IN THE STATUS OF THESE
NEGOTIATIONS.

IN JANUARY THE GOM ASKED VARIOUS EMBASSIES FOR TECHNICAL
INSTRUCTORS TO TRAIN RECRUITS FOR THE NEW GOM JOB CORPS
ORGANIZATION "DIRGHAJN IL-MALTIN" (ARMS OF THE MALTESE).
THE PEACE CORPS EXPLORED THE POSSIBILITY OF THE USG
PROVIDING SUCH INSTRUCTORS, BUT DECIDED THAT INSUFFICIENT
VOLUNTEERS OF THE TYPES REQUIRED WERE AVAILABLE. THE
GOM EVENTUALLY OBTAINED THE INSTRUCTORS FROM SEVERAL OTHER
GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS.

AFTER MANY MONTHS OF NEGOTIATIONS, THE GOM OFFICIALLY
TRANSFERRED CUSTODY OF SEAMAN APPRENTICE HUSTON E.
FEATHERSTONE TO THE US NAVY ON FEBRUARY 12. FEATHERSTONE
WAS FLOWN TO ITALY, AND SUBSEQUENTLY TRANSFERRED TO
NAVAL HOSPITAL FACILITIES IN THE US, THUS BRINGING TO
A MUTUALLY SATISFACTORY CONCLUSION THE LONG CONFINEMENT
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OF FEATHERSTONE IN MALTA.

OFFICIAL US/MALTESE RELATIONS REMAINED HARMONIOUS THROUGHOUT
THE QUARTER, AND THE EMBASSY CONTINUED TO HAVE EXCELLENT
ACCESS TO ALL LEVELS OF THE GOM. SMITH

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